



# Kosovo Business Finance (KBF) Project

*Award Fee Self-Assessment Report  
Evaluation Period 3*

USAID Contract No.  
167-C-00-01-00106-00

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## 1.0 SUMMARY OF AWARD FEE SELF ASSESSMENT

This report describes progress in meeting the performance criteria during Evaluation Period 3 for the Kosovo Business Finance Project (KBF) as established by USAID Contract No. 167-C-00-01-00106-00, Attachment 1 and revised under Contract Modification 10.

The time of review covered under Evaluation Period 3 is six months, from May 11, 2002 through November 10, 2002. There was also a lot of activity regarding Evaluation Period 9 (share of foreign bank equity in the ownership structure for the American Bank of Kosovo). As Period 9 ends May 10, 2003 it is not part of this self-assessment period. However, we have included a brief overview on the progress made towards meeting the targets set for the Period 9 Evaluation Period.

## 2.0 EVALUATION PERIOD 3

Evaluation Period 3 for the Kosovo Business Finance project includes an assessment of the team's performance associated with the overall project and cost management of the Kosovo Business Finance contract. In addition, there are also performance measures associated with several factors in the lending operations, business development, deposit mobilization and general operations at ABK. The table below lists the main evaluation factors along with their weighting and dollar value for this evaluation period.

Evaluation Period 3			
<b>Total Award Fee Available</b>			<b>\$ 188,858.00</b>
Cost Management	6%	\$	11,331.48
Organization Management	7%	\$	13,220.06
Loan Disbursements and Deposits	74%	\$	139,754.92
Volume of Loan Disbursements	10%	\$	13,975.49
Value of Loan Disbursements	30%	\$	41,926.48
Delinquent Loan Rate	20%	\$	27,950.98
Value of Deposits Mobilized	40%	\$	55,901.97
Expansion, Service Quality and Risk Management of the Bank	13%	\$	24,551.54

Each of the main categories listed in the table above are broken down into subcategories with very specific benchmarks and targets outlined. The chart on the following page provides a brief summary of the evaluation criteria set in each category for this period with a very brief synopsis of the team's performance against these targets. Our self-assessment against these factors is outlined below and explained in more detail in subsequent report sections.

Criteria	Summary Self-Assessment
<b>A. Cost Management</b> Cost management, use of funds, quality of reporting, problems and trends identified, responsiveness to cost control measures	<b>A. Cost Management</b> Project spending has been maintained below 50% for the first six months of the project, signifying that total costs have remained within budget. DTTEM has remained cognizant of budget constraints and has provided specialized TA at no cost to USAID or the ABK in order to address critical areas, sustain project momentum, and maintain budget levels.
<b>B. Organization and Management</b> Proactive management to identify and anticipate problems; organized and detailed analysis of issues; solutions implemented with no impact to estimated cost and schedule. Organizational structure provides for personnel to achieve program goals ahead of schedule and within estimated cost. Lines of communication are well defined, clearly understood, and always facilitate rapid exchanges of information.	<b>B. Organization and Management</b> Deloitte has put in place a motivated team who through their individual efforts have helped reach project benchmarks and goals. The loan window operation – or lending unit – became fully integrated into the ABK, thus the 540 day benchmark was met. DTTEM was able to respond flexibly to the needs of the bank and adapt to a new configuration.
<b>C. Loan Disbursements and Deposits</b> <ul style="list-style-type: none"> <li>• <b>Volume of Loans Disbursed</b> – 400 Loans disbursed</li> <li>• <b>Value of Loans Disbursed</b> – Euro 11,000,000 or ABK to have 2<sup>nd</sup> largest market share in Kosovo in loans outstanding, whichever is higher</li> <li>• <b>Delinquent Loan Rate</b> – 3% of loans 60 days or more past due and/or classified by examiners as substandard</li> <li>• <b>Value of Deposit Mobilized</b> – Euro 100,000,000 or ABK to have 2<sup>nd</sup> largest market share in Kosovo in deposits, whichever is higher</li> </ul>	<b>C. Loan Disbursements and Deposits</b> <ul style="list-style-type: none"> <li>• Over 504 SME loans approved during the period</li> <li>• Loan disbursements from May – November 2002 exceeded 12 million Euro by the end of period</li> <li>• Delinquency rate at approximately 3.5%</li> <li>• Over 40 Million Euro in deposits mobilized</li> </ul>
<b>D. Expansion, Service Quality and Risk Management of the Bank</b> <ul style="list-style-type: none"> <li>• <b>Branch and Service Expansion</b> - Minimum of six additional branches established; Serb enclave banking operations in place with a minimum of 5% share of total ABK deposits; Card Services, ATM and international check collection services in place</li> <li>• <b>Customer Service</b> – All bank personnel to complete customer service training; Independent customer survey rates ABK customer service ‘good’</li> <li>• <b>Internal Efficiency</b> – 75% of viable loan applications taken to credit committee within 3 weeks; 25% of viable loan applications taken to credit committee within 2 weeks</li> <li>• <b>Risk Management and Sustainability</b> – Accounting system fully functional; independent assessment rates ABK risk management and other banking systems as ‘good’; minimum of two site visits per month to all lending recipients</li> </ul>	<b>D. Expansion, Service Quality and Risk Management of the Bank</b> <ul style="list-style-type: none"> <li>• Currently ABK has 7 branches and 9 sub-branches, including locations in the Serb enclaves. By the end of November, ABK is expected to be the second largest bank in Kosovo, by level of deposits. ATM machines are in place and will be functional soon.</li> <li>• All bank employees have received customer service training. An independent survey rated the customer service level at the bank as ‘excellent’.</li> <li>• 75% of all viable loan applications are taken to credit committee within 3 weeks; 25% of all viable loan applications are taken to credit committee within 2 weeks.</li> <li>• Controls have been established in all areas of the bank and a pricing committee has been established to review bank pricing for products on a regular basis. A qualified audit statement was granted demonstrating adequate internal controls. There were no major issues highlighted, indicating that the risk management at ABK would be rated at ‘good’. As consistent with the credit policy, two site visits are conducted for all ABK loan clients.</li> </ul>

## A. Cost Management

**Evaluation Criteria:** *Reductions in costs to the Government below contract estimated costs are noteworthy. Provides detailed cost analysis in recommendations for resolution to problems identified. Funds and resources are optimally used to provide the maximum benefit. Documented savings are apparent. Financial reporting is clear, accurate, and pro-active. Responsive to cost control measures. Problems and/or trends are not only addressed thoroughly, but the contractor's recommendations and/or corrective action plans are implemented and are effective.*

The table below shows the estimated financial status of TA funds for the Kosovo Business Finance project through this evaluation period. As noted, project spending has been maintained below 50% for the first six months of the project, signifying that all costs have remained within budget for the project. We are happy to provide further documentation in support of the cost management evaluation of specific line items, or to respond to specific questions on overall approach.

*Estimated Kosovo Business Finance TA (CLIN 1)*

	Year 2 Budget (5/10/2002- 5/10/2003)	Year 2 Quarter 1	September (through 9/21)	October (through 10/19)	November (through 11/16)	Estimated Cumulative Amount	Burn Rate
<b>Salaries</b>	\$ 1,210,998.00	\$ 345,837.57	\$ 76,290.12	\$ 75,169.34	\$ 69,909.21	\$ 567,206.24	46.8%
<b>Fringe</b>	\$ 124,258.00	\$ 36,484.31	\$ 7,884.95	\$ 8,107.78	\$ 8,475.13	\$ 60,952.17	49.1%
<b>Overhead</b>	\$ 1,010,395.00	\$ 290,682.89	\$ 63,723.05	\$ 62,835.84	\$ 59,325.45	\$ 476,567.23	47.2%
<b>Travel</b>	\$ 192,500.00	\$ 63,390.43	\$ 9,930.94	\$ 4,192.29	\$ 7,584.85	\$ 85,098.51	44.2%
<b>Allowances</b>	\$ 684,250.00	\$ 172,517.43	\$ 47,950.20	\$ 43,657.77	\$ 42,360.84	\$ 306,486.24	44.8%
<b>Other Direct Costs</b>	\$ 678,609.00	\$ 219,303.68	\$ 43,677.01	\$ 69,908.40	\$ 22,800.95	\$ 355,690.04	52.4%
<b>Subcontractors</b>	\$ 1,180,000.00	\$ 316,070.11	\$ 260,688.57	\$ 39,424.85	\$ 83,571.94	\$ 699,755.47	59.3%
<b>General &amp; Administration</b>	\$ 406,481.00	\$ 115,536.80	\$ 40,811.59	\$ 24,263.70	\$ 23,522.27	\$ 204,134.36	50.2%
<b>Base Fee</b>	\$ 185,055.00	\$ 31,194.92	\$ 11,019.13	\$ 6,551.20	\$ 6,351.01	\$ 55,116.26	29.8%
<b>Totals</b>	\$ 5,672,546.00	\$ 1,591,018.14	\$ 561,975.56	\$ 334,111.17	\$ 323,901.65	\$ 2,811,006.52	49.6%

*Subcontractors costs in September includes costs associated with employing the local employees under the project through August, 2002*

### Budget Monitoring and Efforts to Control Expenditures

The project management team closely monitored the project budget, especially with respect to short-term technical assistance (STTA), to ensure that we did not exceed the overall budget but still responded to the needs of the project and the team in the field. We were able to procure and provide the STTA in critical areas such as ATMs and IT with the confidence that future STTA needs as forecast under the project could be met as well. Additionally, the team made a successful effort to replace an expatriate loan officer at a high daily rate with another expatriate loan officer at a lower daily rate yet who still possessed the requisite skills and experience for the position, resulting in overall cost savings to the project. Finally, during Period 3, the local staff were transferred from the project to the ABK payroll, which fulfilled the dual goals of KBFF staff integration into ABK and achieving significant cost savings under the project.

During Period 3 there were also many discussions with regard to a project budget modification and obligated funding in light of items such as revised project benchmarks; the integration of KBFF into ABK; the use of ABK deposits for SME loans; and USAID provision of funds for bank capital to undertake certain ABK initiatives and still meet capital adequacy requirements. Transfers from one CLIN to another were made and it was noted by

USAID and DTTEM during discussions that funding obligated for CLIN 1 (to cover technical assistance and related costs) would only be sufficient to cover projected CLIN 1 expenditures until around December 2002. While this was the understanding between both parties, it was not documented in the final budget modification issued (Contract Modification No. 9). In late October, DTTEM sent USAID a 75% notification letter (regarding expenditures versus obligated funding); however, this notification was late as the expenditures had already reached approximately the 83% mark. DTTEM will make every effort to confirm the documentation of understandings with USAID and provide USAID with more timely financial information, especially with regards to obligated funding.

### ***DTTEM Provision Of Technical Assistance At No Cost***

Cognizant of budget constraints as well as the need for specific technical assistance to urgently address critical areas and maintain project momentum, during Period 3 DTTEM provided the services of select Deloitte consultants at no cost to the project or the ABK. For example, a Deloitte Corporate Finance specialist helped the team and USAID prepare for bank sale negotiations with RZB. He reviewed and commented on draft sale terms; provided analytical data on bank sale transactions in the CEE region; provided guidance on negotiating points and made himself available for questions. The office of this Corporate Finance specialist absorbed the cost of his time and services. Additionally, DTTEM paid for the audit and accounting services necessary for various reconciliations and other accounting/finance tasks at the ABK during the months of July – September. The services of these accounting and audit professionals from Deloitte Touche Central Europe (DTCE) and the DTTEM – Washington, DC office amounted to over \$40K, but was not charged to the project or the ABK. Finally, DTTEM also paid for the project management and coordination services provided in the field by Ken Smarzik and Monica Shinn over the period of July, August and September. They were able to assist with project administration items as well as technical issues and provide support to the team during a critical period.

As noted, DTTEM has made a strong effort to manage project costs and provide assistance when and where most needed to help ensure project success.

## **B. Organization and Management**

**Evaluation Criteria:** *Contractor practices proactive management to identify and anticipate problems prior to adverse impact. Contractor provides organized and detailed alternatives including risk assessments, trade-off analysis between cost, schedule and performance, plan of action and implementation schedule. Solutions are implemented with no impact to estimated cost and schedule. Organizational structure provides for highly qualified personnel assigned with duties, responsibilities, and authority necessary to achieve program goals ahead of schedule and within estimated cost. Lines of communication are well defined, clearly understood, and always facilitate rapid exchanges of information, both technical and contractual, in order to meet program goals.*

### ***Flexible Project Structure***

Regarding organization and management, Deloitte has put in place a motivated team who through their individual efforts have helped reach project benchmarks and goals, especially with regards to the potential sale of bank shares to a commercial investor and important ABK initiatives such as ATMs and Visa card services. During Period 3, Deloitte recruited and mobilized a CFO (May), an IT/MIS specialist (June); a Marketing and New Business Development specialist (August) and several short term consultants in the IT/MIS and legal advisory fields. These experts took the lead in their respective technical areas and began the necessary analysis, planning, and implementation to produce results. These individuals and other expatriates on the project worked at a very rapid pace in Period 3, with the result that the KBF team has been able to get ahead of schedule for several areas such as the majority sale of the ABK to RZB and the integration of the loan unit into the Bank. DTTEM was able to respond flexibly to the needs of the bank and adapt to a new configuration of a larger bank team, yet it also kept most of the project team –such as lending officers -- in place for sustained project momentum.

### ***Integration Of Loan Window Operation***

During Period 3, the loan window operation – or lending unit – became fully integrated into the ABK, thus the 540 day benchmark was met. This integration signified substantial savings to USAID, as the ABK began to fund loans with its deposit base. Consequently, the funding amount projected to be obligated for CLIN 2 (loan funds) has decreased and these monies could be reallocated. Now that there is a potential buyer for shares in ABK, this integration increases in importance from both a managerial as well as cost perspective.

### ***Increased and Enhanced Communication***

There has been an increase in communication both between the KBF team in the field and Deloitte and between USAID and the KBF Team/Deloitte Home Office. For example, the ABK management report, organized by technical area, have been sent on a periodic basis to Deloitte and USAID and the ABK Management Meeting notes from the Monday morning meetings are circulated. Separate memos/reports are also sent to USAID and Deloitte upon request and as needed. This enhanced communication has helped to track accountability; lay out the “big picture” of what has needed to get done; and focus in on priority areas.

Through the efforts described above, the KBF project team has exceeded the original benchmarks in the contract and we are on our way to meeting or exceeding several new benchmarks. We incorporate by reference the Monthly Progress Reports from May 2001 to October 2002 as a source of specific information on our progress in this regard. A summary of benchmark achievements is included in Appendix A.



## C. Loan Disbursements and Deposits

**Evaluation Criteria:** 400 loans booked with a total value of EUR 11,000,000 or ABK to have 2<sup>nd</sup> largest market share in Kosovo in loans outstanding, whichever is higher. Delinquent loan rate 3% or less (% of loans 60 days or more past due and/or classified by examiners as sub-standard). Deposits at EUR 100,000,000 or ABK to have 2<sup>nd</sup> largest market share in Kosovo in deposits, whichever is higher.

This section provides a brief overview of the KBF team's performance in meeting the specific loan disbursement and deposit targets set for evaluation period 3. The average loan size in the ABK portfolio is approximately 25,148 Euros for a term of approximately 10 months. Each of the sub factors, as outlined in the evaluation criteria, is discussed below. Appendix B provides further information on the loan portfolio and the estimated employment impact of the loans generated by the ABK/KBF project.

### *Volume of Loans Disbursed*

For this evaluation period, from May 10 – November 10, 2002, the lending team disbursed 504 loans totaling over EURO 12 million, surpassing the targets set by USAID. Since May 10, 2002, the team has approved over 592 loans, which are currently in various stages of the loan process. This was accomplished by setting high targets for all lending associates, having the expatriate staff work directly with the teams to provide hands on training and by increasing the staffing for the lending unit early in the project. Since the team has brought on a large number of lending staff early on and provided on-the-job training, these individuals were able to move quickly through the training program to become productive during this evaluation period.

The lending team at ABK continues to maintain an active pipeline as 818 loans have been approved by the ABK/KBF project to date. All closing activities (e.g. signed loan agreements, collateral filing, etc.) were finalized on a total of 773 loans resulting in 18.5 million Euros disbursed to ABK borrowers.

### *Value of Loans Disbursed*

From May 10 – November 10, 2002, the team disbursed over 12 million Euros of loans to ABK borrowers, surpassing the target set in this area as well. Because the team has continually worked to decrease the time spent in processing the disbursement of loan funds once the loan has been approved, much of the necessary paperwork and documentation is filled out before the loan is ever presented to the credit committee. This has allowed the credit administration team to focus more on processing the information than trying to collect the information that should already be on file. Because of this improvement, and an increase in the size of the credit administration department, the team has been able to disburse this increased number of loans.

A total of 18.5 million Euros has been disbursed to ABK borrowers since the beginning of the KBF project. Further disbursements of approved loans occur on a daily basis.

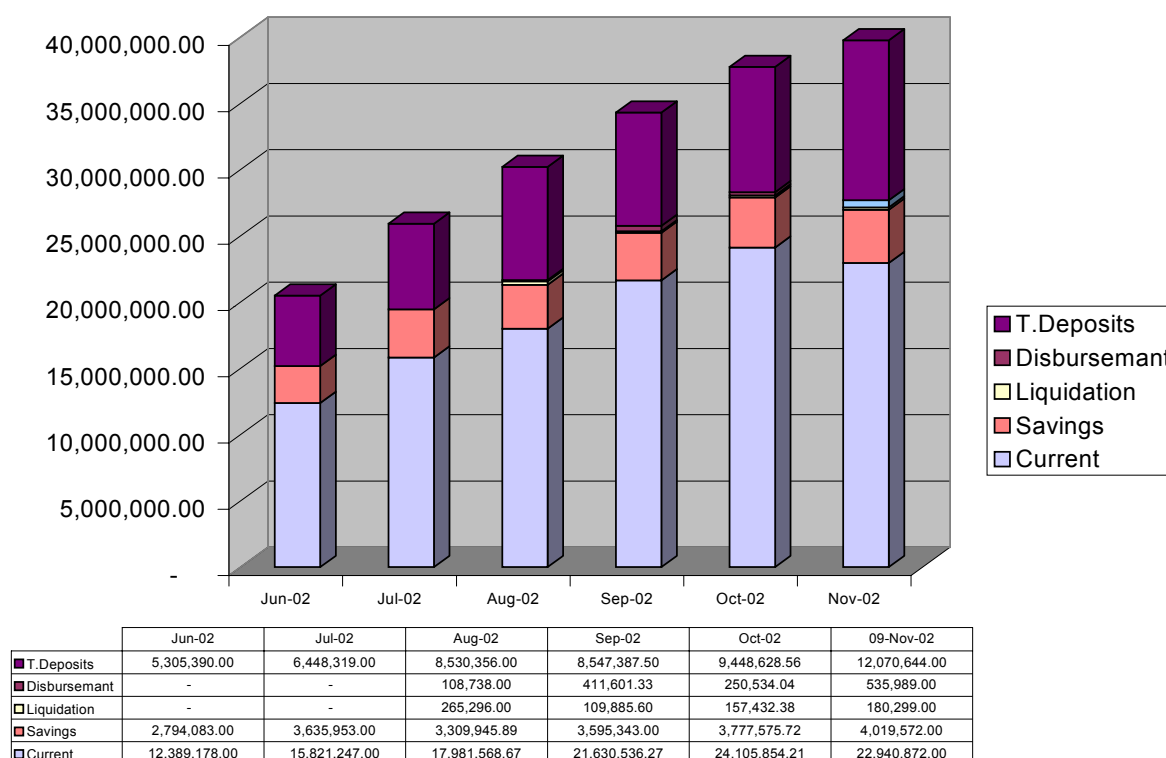
## Delinquencies

According to the Credit Administration Department, as of November 10, 2002, there were eleven loans that were more than 30 days past due on all or a portion of their payments. These loans represent an arrears rate of 2.03% with a principal outstanding on the loans in arrears totaled at 244,810 Euros. The total portfolio at risk of 424,776 Euros represents approximately 3.5% of the total loan portfolio.

Currently, the team continues to maintain a strong focus on pressing clients and collecting loans that are past due. Legal action has begun against all borrowers in arrears. Because of our aggressive actions, it is believed that the arrears rate will remain at approximately 3% for the duration of the project.

## Value of Deposits Mobilized

Although ABK has grown faster than any other bank in Kosovo, it was not enough to meet the project target, deposit level at EUR 100 Million, set by USAID. However, the team has been continuously working to aggressively pursue additional deposits, as demonstrated in the chart below. Since May 2002, the level of deposits at ABK has doubled, from under EUR 20 million to nearly EUR 40 million, with several more deposits expected within the next couple of months. Despite a stagnant growth rate in the overall deposit level at all banks in Kosovo, by November 10, 2002, ABK has been one of the only banks able to continually increase its level of deposits.



Due to the current situation in the banking system in Kosovo mentioned above, all deposit growth at ABK must result from gaining market share at the expense of competing banks. This is a difficult task, but the team has developed several programs to continue the successful growth in the deposit levels at ABK. The sales team continues to work closely with NGO's and large and international organizations to ensure that they are receiving the best possible service at ABK. Additionally, an intensive marketing campaign targeted at the largest entities in Kosovo continues to be conducted by the Branch Marketing Officers in each of the main branches and by the Business Development Associates in Prishtina. Lending Officers also cross sell banking services to their SME loan clients and representation by both the lending and sales teams will be present at all relevant trade fairs throughout Kosovo. Various advertising campaign continue in both international and domestic editions of a Kosovar newspaper to increase awareness of bank services and to highlight international and domestic transfer capabilities. With these efforts, we are confident that the deposit levels will continue to increase at ABK. It is predicted that ABK should have the second largest market share in Kosovo by the end of the calendar year.

## D. Expansion, Service Quality and Risk Management of the Bank

**Evaluation Criteria:** *Branch Service and Expansion:* Minimum of six additional branches established; Serb enclave banking operations in place with a minimum of 5% share of total ABK deposits taken through the branch network in enclave areas; Card Services, ATM and international check collection services in place. *Customer Service:* All bank personnel to complete customer service training; Independent customer survey rates ABK customer service “good.” *Internal Efficiency:* 75% of viable loan applications taken to credit committee within 3 weeks; 25% of viable loan applications taken to credit committee within 2 weeks. *Risk Management and Sustainability:* Accounting system fully functional (per independent review); Independent assessment rates ABK risk management and other banking systems ‘good’; Minimum of two site visits per month to all lending recipients

### Branch and Service Expansion

In order to successfully increase the deposit level to become the second largest bank in the market, ABK needed to increase its visibility in Kosovo from just its one main branch in Prishtina. Therefore, the team aggressively pursued a branching and ATM network strategy to take advantage of the rest of the market outside Prishtina. During this evaluation period, the team maintained its strong focus on the development of branch and ATM networks throughout Kosovo. Several targets and benchmarks were set in this area and our progress against these benchmarks is discussed below.

### Branch Network

During the prior evaluation period, ABK had established a strategy to increase its presence throughout Kosovo through the acquisition of several of the BPK branches. A proposal was assembled and submitted for the tender. By May, the team learned that it had won and had access to several of the existing BPK branches in strategic locations throughout Kosovo. The team then spent May and June focused on upgrading the old BPK branches in order to establish them as ABK branches. Due to this effort, ABK currently has 7 branches and 9 sub-branches, which can be found in the following locations:

<b>Branches:</b> <ul style="list-style-type: none"><li>• Prishtina</li><li>• Ferizaj</li><li>• Prizren</li><li>• Mitrovica</li><li>• Gjilan</li><li>• Gjakova</li><li>• Peja</li></ul>	<b>Sub-branches:</b> <ul style="list-style-type: none"><li>• Strepce</li><li>• Zvecan</li><li>• Kacenic</li><li>• Dragash</li><li>• Malisheva</li><li>• Vushtri</li><li>• Kamenica</li><li>• Gracanica</li><li>• N. Mitrovica</li></ul>
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In branch expansion, the team has exceeded the benchmarks set for the establishment of six branches by November 10, 2002. Not only does ABK have 7 branch locations, but these were all established and opened by July 2002. With 5 of the sub-branches located in Serbian territories, ABK also has a strong deposit base in these regions as well.

## **ATM Network**

During this evaluation period, the team has made great progress and has overcome several hurdles in the establishment of the ATM network. ATM machines have been installed in 5 of the main branches (Prishtina, Peja, Prizren, Gjakove and Ferizaj). The Banknet satellite link with Euronet in Budapest, Hungary has been successful and all of the branches are connected with leased line communication.

Although the ATMs are currently set at their respective locations throughout Kosovo and therefore could be considered to be in place, the network was not quite operational by the end of the evaluation period. Long lines at the Macedonian border, delays in getting through customs and tight subcontractor schedules have resulted in unforeseen delays in getting the system fully operational by November 10, 2002. With no further problems in sight, it is expected that ATMs will be functional by December 2002.

## ***Customer Service***

In order to fulfill one of the main goals for this evaluation period, the team has focused on improving the customer service levels at all ABK branches. Intensive customer service training took place for all staff having any interaction with ABK customers. Detailed training on position functions and procedures was also provided for all job areas in order to ensure that the staff was knowledgeable enough to answer most potential questions posed by ABK customers.

## **Customer Service Surveys**

The business development team worked with a local company in Kosovo to design and administer a customer service survey that was implemented at all branches. The customer surveys were administered during the last part of October and results were tabulated for inclusion in this report. Based on the assessment, it was determined that the respondents rated ABK's services to be 'Highly Positive'. In fact, all factors measured by the survey received a rating between 'Superior' and 'Good'. This rating fulfills the benchmarks set under the customer service factor to receive a rate of 'Good' on an independent customer survey. A more detailed summary of the results and a sample of the survey questionnaire are included in Appendix C.

## ***Internal Efficiency***

The lending department continues to improve the loan application process in order to decrease the amount of time clients have to wait before a decision is made on whether a loan will be approved. Due to the efforts to push most of the data collection process to the front end, by assuring that the lending associates/loan officers has clearly communicated to the client what exact information is needed to complete a loan application, the team has been able to significantly decrease the amount of time needed from when a loan application is filled out to when it is presented to the credit committee. Therefore, in line with the project objectives set for internal efficiency, 75% of all viable loans applications are taken to the credit committee within 3 weeks and the remaining 25% are taken to the credit committee within 2 weeks.

## ***Risk Management and Sustainability***

Since the opening of ABK, the team has continued to improve the risk management and operating systems at the bank. During this evaluation period, significant progress in this area has been made. This section provides a brief overview of the risk management and operational procedures of the bank as they relate to the benchmarks set in this area for this evaluation period.

### **Accounting system, risk management and other banking systems**

Management of the ABK is responsible for the design, implementation and maintenance of internal policies and procedures that provide adequate levels of protection of the assets and records. Management is also responsible for the definition of adequate levels of protection in terms of control objectives and for ensuring that these objectives are achieved by the control procedures in place.

In order to assure that ABK had reasonable controls and protections in place, the management team asked PricewaterhouseCoopers to carry out specific agreed-upon procedures to evaluate the Bank's operations. The responsibility of the PwC team was to report on whether the Bank's management have fairly described the internal policies and procedures and whether the specific internal procedures, which were tested, operated as described. These agreed-upon procedures, which are detailed in the Engagement Letter dated 3 September 2002 attached as Appendix D, comprised eight individual steps agreed with the Bank. The findings in relation to those steps are set out in the report provided by PricewaterhouseCoopers.

The review of ABK was performed during the period 16 September 2002 to 27 September 2002 and covered operations of the Bank for the period 1 January 2002 to 27 September 2002 ("the period"). The report covered solely the operations of the Bank for the period from 1 January 2002 to 27 September 2002, as described in Management Report on the Internal Policies and Procedures ("Management Report"). In accordance with the project benchmarks, at the presentation of the findings by PwC, it was determined that the current accounting system is functional for the demands of the ABK and that it is improving. It was also determined that there are also no significant problems with ABK risk management or other bank system, thereby satisfying these factors set for this evaluation criteria.

### **Site visits for lending recipients**

As one of the policies set forth in the lending operations, it is required that the team conduct two site visits to all lending recipients per month. It was verified by the PwC team that these visits are taking place, satisfying this evaluation criteria.

### 3.0 EVALUATION PERIOD 9

**Evaluation Criteria:** *Percentage Share Capital in Banking Institution Owned by Reputable Foreign Financial Institution: Greater than or equal to 25% within Year 2 of the contract*

Although Evaluation Period 9 does not occur until May 10, 2003, the team felt it was important to include mention of the progress made towards realizing this goal. During Evaluation Period 8, the team – together with USAID -- maintained close contact with representatives from Raiffeisen Zentral Bank (RZB). RZB is one of Austria's two leading banks. It has corporate banking, retail and other services throughout Austria. RZB considers Central, Eastern and Southeastern Europe as core banking markets in its business strategy. They have successfully opened and operated banking subsidiaries in Romania, Bulgaria, Poland, the Czech Republic, Slovakia, Hungary, Poland, and Ukraine, and have recently established banks throughout the former Yugoslavia.

Representatives from RZB have expressed an interest in a potential future investment in the ABK. During Evaluation Period 8, representatives from RZB came to Prishtina for the specific purpose of evaluating the market to determine the investment potential for the ABK. However, they were not quite ready to begin serious negotiations.

Since this initial visit in March 2002, much activity has occurred with respect to the sale of capital for the ABK. RZB decided that it would be interested in purchasing 76% of the shares of ABK, signed a draft purchase agreement and has visited with the team in Prishtina and in Vienna several times. The Deloitte/ABK team will continue to work closely with USAID and RZB to support the sale of the ABK, as needed during this period. Currently, all sales documents are going through a final review by legal advisors for USAID, RZB and Deloitte. Final discussions and closure of the sale is expected to take place in early December 2002, which would satisfy the requirements for Evaluation Periods 8, 9 and 10.

## APPENDICES



## Appendix A - Progress Against Other Benchmarks

The following table illustrates the progress made by the KBFF team through November 10, 2002 towards fulfillment of specific benchmarks set by USAID.

	Completed Benchmarks	Comments
<b>Within 30 Days</b>		
1	<i>Comprehensive work plan to be approved by USAID</i>	<ul style="list-style-type: none"> <li>The first draft of the work plan was completed and submitted to USAID in June, 2001</li> <li>The final draft was approved by USAID in July 2001</li> </ul>
2	<i>Comprehensive set of oversight procedures</i>	<ul style="list-style-type: none"> <li>Deloitte has established several oversight procedures to ensure the smooth operation of the project</li> <li>The team continues to adapt procedures, as necessary, to ensure the success of the project</li> </ul>
3	<i>Apply for lending license</i>	<ul style="list-style-type: none"> <li>KBFF applied and was granted a lending license in June, 2001</li> </ul>
4	<i>Establish and staff the Loan Unit office</i>	<ul style="list-style-type: none"> <li>The KBF project team hired several Kosovar employees and moved into their offices at Aktash III in June, 2001</li> <li>The team will continue to recruit and train employees as needed</li> </ul>
<b>Within 60 Days</b>		
5	<i>Establish a budget and projected revenues</i>	<ul style="list-style-type: none"> <li>A budget was established for the project in June and has been reviewed with the project staff in order to ensure its adequacy</li> <li>Cost control measures are continuously being evaluated and applied as necessary</li> </ul>
6	<i>Establish framework operating procedures such as will ensure prudent operations</i>	<ul style="list-style-type: none"> <li>Operating procedures were established for KBFF, including lending procedures, loan disbursement procedures, and daily operating procedures</li> </ul>
7	<i>Provide USAID with a comprehensive design for the establishment of a full service banking institution</i>	<ul style="list-style-type: none"> <li>A work plan was submitted to USAID in July, 2001 detailing the operating procedures and work plan for establishing a full service bank institution</li> </ul>
8	<i>Detailed plan describing the proposed fiduciary responsibilities of a commercial banking institution towards USAID after the completion of the initial three year program implementation period</i>	<ul style="list-style-type: none"> <li>An amendment was made to the contract detailing the responsibilities of the Kosovo American Bank in reporting to USAID</li> <li>A relationship with USAID and Deloitte in the daily operations of the Bank has been established</li> </ul>
<b>Within 90 Days</b>		
9	<i>Complete a database of Kosovar companies with financial data and credit requirements</i>	<ul style="list-style-type: none"> <li>A database has been established by the project staff to include several Kosovar companies eligible for loan funds from KBFF.</li> <li>The database continues to be expanded based on new contacts made by the lending team</li> </ul>
10	<i>Commence training of Kosovar staff in SME lending practices</i>	<ul style="list-style-type: none"> <li>The lending team has received on-the-job training since the first day of hire</li> <li>An intensive training session was held for the lending staff in August, 2001, incorporating SME lending procedures</li> <li>Follow-on training sessions are planned for when the lending associates are a bit more experienced</li> </ul>
11	<i>Draft operational structure, credit policies and procedures, loan follow-up and recovery policies, accounting systems, loan and collateral documentation and</i>	<ul style="list-style-type: none"> <li>KBFF opened its doors to customers in June, 2001</li> <li>Lending procedures have been established and are detailed in the credit manual distributed to staff and used to guide them on lending procedures at KBFF</li> </ul>

	<i>oversight and audit functions established Lending Unit to become licensed and formally opened with staff fully trained</i>	<ul style="list-style-type: none"> <li>Staff has received training in Financial Analysis, credit and lending.</li> <li>The Loan Information System was established as a means to track loans and repayment history</li> </ul>
12	<i>A minimum of 50 business plans and loan applications prepared</i>	<ul style="list-style-type: none"> <li>The staff is well on their way to having 50 loan applications completed</li> <li>As agreed with USAID and the KBS project, the KBFF team does not prepare business plans for its clients</li> </ul>
<b>Within 120 Days</b>		
13	<i>Establish contractual agreement to ensure proper representation, reporting and commitment to adhere to prudent lending activities as well as continue the activities of the Lending Unit</i>	<ul style="list-style-type: none"> <li>Contractual agreements have been established</li> </ul>
14	<i>In conjunction with USAID, determine a partner bank/institution to form the business bank</i>	<ul style="list-style-type: none"> <li>RIAS/Rabobank has been working as a subcontractor to Deloitte to assist with the establishment of the bank since project inception</li> </ul>
<b>Within 150 Days</b>		
15	<i>The banking institution is provided an operating license</i>	<ul style="list-style-type: none"> <li>A preliminary operating license was granted to the American Bank of Kosovo in October, 2001</li> </ul>
<b>Within 180 Days</b>		
16	<i>Commence deposit gathering activities</i>	<ul style="list-style-type: none"> <li>Deposit gathering activities commenced on November 12, 2001</li> </ul>
17	<i>50 loans booked</i>	<ul style="list-style-type: none"> <li>61 loans booked</li> </ul>
18	<i>2,000,000 DM disbursed</i>	<ul style="list-style-type: none"> <li>2,200,000 DM disbursed</li> </ul>
19	<i>400 jobs created (cumulative)</i>	<ul style="list-style-type: none"> <li>Nearly 500 jobs created</li> </ul>
<b>Within 270 Days</b>		
20	<i>Deposit gathering - DM 9,000,000</i>	<ul style="list-style-type: none"> <li>Deposit level exceeded 30 Million DM</li> </ul>
21	<i>120 loans booked (cumulative)</i>	<ul style="list-style-type: none"> <li>182 loans booked</li> </ul>
22	<i>5,500,000 DM disbursed (cumulative)</i>	<ul style="list-style-type: none"> <li>Over 8,000,000 DM disbursed</li> </ul>
23	<i>1100 jobs created</i>	<ul style="list-style-type: none"> <li>Approximately 1,000 jobs created</li> </ul>
<b>Within 360 Days</b>		
24	<i>Provide funding of a commercial banking partner institution</i>	<ul style="list-style-type: none"> <li>RIAS currently owns approximately 1% of bank capital</li> </ul>
25	<i>Deposit gathering - DM 15,000,000</i>	<ul style="list-style-type: none"> <li>Deposit level exceeded 30 Million DM</li> </ul>
26	<i>200 loans booked</i>	<ul style="list-style-type: none"> <li>260 loans booked</li> </ul>
27	<i>10,300,000 DM disbursed</i>	<ul style="list-style-type: none"> <li>10,900,000 million DM disbursed</li> </ul>
28	<i>2,060 jobs created</i>	<ul style="list-style-type: none"> <li>Approximately 2,180 jobs created</li> </ul>
<b>Within 540 Days/1.5 Years</b>		
29	<i>Loan window operation fully integrated into the operation of the commercial banking partner institution</i>	<ul style="list-style-type: none"> <li>By March 2002, the lending unit of the bank was fully integrated into the ABK</li> <li>The team began lending ABK deposits as of May 2002</li> <li>All local lending staff was transferred over to the ABK payroll as of August 2002</li> </ul>
30	<i>Deposit gathering – EUR 100,000,000 or ABK to have 2<sup>nd</sup> largest market share in Kosovo in deposits, whichever is higher</i>	<ul style="list-style-type: none"> <li>As of November 10, nearly EUR 40,000,000 in deposits had been gathered. ABK is expected to be the second largest bank in Kosovo by the end of the calendar year</li> </ul>
31	<i>400 loans disbursed (number of loans disbursed per evaluation period)</i>	<ul style="list-style-type: none"> <li>As of November 10, over 800 loans had been disbursed to ABK/KBF project borrowers.</li> <li>During the period from May – November 10, over 504 loans have been disbursed.</li> </ul>
32	<i>EUR 11,000,000 disbursed or ABK to have 2<sup>nd</sup> largest market share in Kosovo in loans</i>	<ul style="list-style-type: none"> <li>Since project inception, EUR 18,500,000 in loans has been disbursed to borrowers in Kosovo</li> </ul>

	<i>outstanding, whichever is higher (EUR amount of loans disbursed per evaluation period)</i>	<ul style="list-style-type: none"> <li>During the period from May – October, over EUR 12,000,000 in loans has been disbursed</li> </ul>
33	<i>4,400 jobs created (assumes one job per approximately EURO 2,500 disbursed)</i>	<ul style="list-style-type: none"> <li>As of October 31, 2002, ABK/KBF project financing has resulted in the direct creation of approximately 7,400 new jobs.</li> </ul>

## Appendix B - Supplemental Information on Lending Activity, Employment Generation, and Staff Development

In accordance with the Project goals for employment generation and economic stimulation, the lending priority is to finance businesses engaged in labor-intensive manufacturing and production activities. Of the 806 loan applications that were approved by the project, 75.3% are in the manufacturing/production industry sector, 11.4% are in the service industry sector and 13.3% are engaged in pure trade. A detailed breakdown of the loan portfolio by industry sector is shown below.

### KOSOVO BUSINESS FINANCE FUND Industry Concentration Report

As of October 31, 2002

Industry Sector	Amount		# of loans	
		%		%
<b>1. Manufacturing+Production</b>	<b>15,023,914.68</b>	<b>74.1</b>	<b>607</b>	<b>75.3</b>
Manufacturing/ Wood	3,591,324.19	17.7	130	16.1
Metal Fabrication	728,943.03	3.6	31	3.8
Glass Production	143,500.00	0.7	10	1.2
Textile/ Apparel	550,033.41	2.7	34	4.2
Printing/paper products	675,322.54	3.3	28	3.5
Hygienic Production	206,580.87	1.0	8	1.0
Plastics	903,995.99	4.5	33	4.1
Pharmaceuticals	112,677.51	0.6	5	0.6
Soft Drinks products	255,967.95	1.3	9	1.1
Food	2,707,589.96	13.4	109	13.5
Milling Plant	540,566.41	2.7	17	2.1
Construction	2,409,967.39	11.9	96	11.9
Electrical	305,532.75	1.5	6	0.7
Farm/Fish, Eggs	1,364,690.00	6.7	73	9.1
Other	527,222.68	2.6	18	2.2
<b>2.Trade</b>	<b>3,571,745.75</b>	<b>17.6</b>	<b>107</b>	<b>13.3</b>
Fertilizer distribution	152,484.21	0.8	4	0.5
Food distribution	372,016.27	1.8	6	0.7
Retail	3,047,245.27	15.0	97	12.0
<b>3.Services</b>	<b>1,673,953.58</b>	<b>8.3</b>	<b>92</b>	<b>11.4</b>
Hotel/Restaurants	483,967.94	2.4	28	3.5
Professional services	1,189,985.64	5.9	64	7.9
<b>Total</b>	<b>20,269,614.01</b>	<b>100.0</b>	<b>806</b>	<b>100.0</b>

The lending team focuses on visiting clients within Prishtina as well as throughout all of Kosovo, including the Serbian enclaves. Of the 806 loans approved, 16.4% are to borrowers within the Prishtina municipality, 13.8% in Prizren, 7.2% in Ferizaj and 4.6% in Mitrovica municipality. Lending activity in the minority regions of Kosovo has been one of the priorities of the lending team, as is evident by the increased number of loans generated in these areas. Also, due to the extensive branch network of ABK, the lending team is now able to provide better services to the companies outside of Prishtina. Therefore, it is expected that the Geographic Concentration for loans will change slightly over the course of the next several months. The following chart shows a detailed breakdown of the geographic concentration for all loan clients throughout Kosovo.

## Geographical Concentration Report

As Of: October 31, 2002

Municipality	Amount		# of loans	
		%		%
Decan	336,160.99	1.7	17	2.1
Dragash	20,000.00	0.1	1	0.1
Drenas	409,864.59	2.0	22	2.7
Ferizaj	1,450,221.83	7.2	58	7.2
Fushe Kosove	219,013.79	1.1	13	1.6
Gjakove	1,344,698.11	6.6	70	8.7
Gjilan	1,228,010.05	6.1	43	5.3
Istog	616,532.53	3.0	29	3.6
Kacanik	59,000.00	0.3	4	0.5
Klina	144,000.00	0.7	4	0.5
Kamenice	178,700.00	0.9	8	1.0
Kijeve	100,000.00	0.5	2	0.2
Leposaviq	175,992.00	0.9	18	2.2
Leshak	20,500.00	0.1	4	0.5
Likoshani	20,000.00	0.1	1	0.1
Lipjan	639,532.54	3.2	23	2.9
Malisheve	115,372.63	0.6	9	1.1
Mitrovica	611,803.55	3.0	37	4.6
Obiliq	20,000.00	0.1	1	0.1
Peje	1,966,356.95	9.7	73	9.1
Podujeve	557,962.88	2.8	24	3.0
Prishtine	5,482,017.63	27.0	132	16.4
Prizren	2,757,614.70	13.6	111	13.8
Rahovec	192,125.84	0.9	9	1.1
Shtime	182,484.21	0.9	4	0.5
Skenderaj	163,008.13	0.8	11	1.4
Strpce	98,000.00	0.5	9	1.1
Suhareke	254,450.84	1.3	12	1.5
Viti	213,495.00	1.1	15	1.9
Vitimirice	20,000.00	0.1	1	0.1
Vushtrri	280,895.22	1.4	14	1.7
Vrelle	90,000.00	0.4	1	0.1
Zvecan	202,000.00	1.0	16	2.0
Zubin Potok	99,800.00	0.5	10	1.2
<b>Total</b>	<b>20,269,614.01</b>	<b>100.0</b>	<b>806</b>	<b>100.0</b>

## Employment Generation

If we use the figure of 5,000 DM (or approximately EURO 2,500) in loans disbursed equates to one new job (as stated in the KBF RFP), then the number of jobs created is 7,400 (18.5 million EURO disbursed as of November 10 divided by 2,500). This job creation number exceeds the set benchmark of 4,400 for this period. There are, however, different ways to estimate job creation. For example, one of the questions that KBF lending staff asks applicants during the loan application process is, "How many people do you expect to hire if KBFF approves your financing request?" This number is difficult to verify, but lending staff and KBF credit management review the number and type of jobs being created to determine if the response is reasonable given the activities of the business and nature of the financing purpose. Based on responses from the 806 approved loan applicants, ABK/KBF project financing will result in the direct creation of 2,596 new jobs; 1 job for each 7,808 Euro of loan volume. This figure, however, does not take into account any indirect job creation. As the RFP, proposal and KBF contract use the figure of 5,000 DM (or approximately 2,500 EURO) equates to one new job, we assume that our performance is to be measured against this target. If so, the team has surpassed the targets in this area.

## Development of Lending and Credit Administration Team

It is the goal of the project to develop Kosovar citizens into credit and banking professionals that can assume the roles of Loan Officers, Credit Managers and Branch Supervisors within the organization. Job training occurs each workday in all departments since the employees continue to work directly with senior management in the activities related to their specific tasks. In the lending unit, lending associates work with their respective Loan Officer/Senior Manager on originating, disbursing, and monitoring SME loans. The chart below details the classroom training sessions that have taken place over the course of the project.

### KOSOVO BUSINESS FINANCE FUND

Training Schedule Report

As of November 10, 2002

TITLE	DESCRIPTION
Credit File Structure	An electronic filing system allows KBFF staff to access approved lending documents and store business communication and lending documents in an electronic filing system.
Central Calendar Loan Info System	A central calendar was implemented assist with scheduling client meeting and gives KBFF managers the ability to supervise employees' activities.
KBFF Credit Process	Review of KBFF lending approach and loan recommendation package.
Credit Manual	The KBFF Credit Manual containing the policies and procedures that govern all aspects of loan delivery and recovery.
Small and Micro Lending Techniques	How small and micro lending techniques are utilized in the KBFF lending process and applicability to the Kosovo environment.
Lending Processes	Approach and format for completing the Loan Recommendation form and other loan file documents.
Basic Accounting	Basics of how to construct the balance sheet and cash flow statement and how these financial statements apply to credit analysis and lending decisions.
Accounting	Accounting review: balance sheet, amortization, accounts payable, accounts receivable, bookkeeping.
Credit Risk	Basic double-entry bookkeeping, financial analysis techniques and critical case study review of KBFF loan recommendations.
Credit Risk Management	Week long session which contained 8 modules covering financial statement analysis, cash flow analysis and projections, SME business risk evaluation, business planning, client interaction, collateral valuation and loan monitoring.
Deposit mobilization	Discussion on deposits mobilization, characteristics that make deposit attractive to large, medium and small depositors and strategies for selling ABK deposits and other financial products.
Bank operations	All lenders were given a one-day course in CRO, Cashier, and teller functions, including a basic Globus orientation. This was given by the IT department.
GPS training and Team Building	GPS training, team building, deposit mobilization and progress towards targets.
Bank Policies and GPS training	Bank policies, GPS training, deposit mobilization and progress towards targets

During this period, a staffing plan was developed for placing lending staff in all of the new branches. The phased plan includes placing experienced lenders temporarily in the branches while the new lending associates are trained in Prishtina. Experienced lending associates destined for permanent placement in branches will be rotated through credit administration as soon as possible, and they will also receive hands-on training in branch operations before they transfer. By the end of the period, all Junior Loan officers were moved to their respective branches to begin representation of the lending program on-site.

## Appendix C - Supplemental Information on Customer Service at ABK

During the month of October, the ABK contracted with Index Kosova, a local surveying organization, to administer a customer service survey at all of the ABK branches. The main findings of the survey are summarized below. These findings will be used by the business development and management teams to further tailor the ABK services to meet the customer needs and also to develop new products aimed at increasing the number of customers and the deposit level at ABK.

### Summary of Main Findings

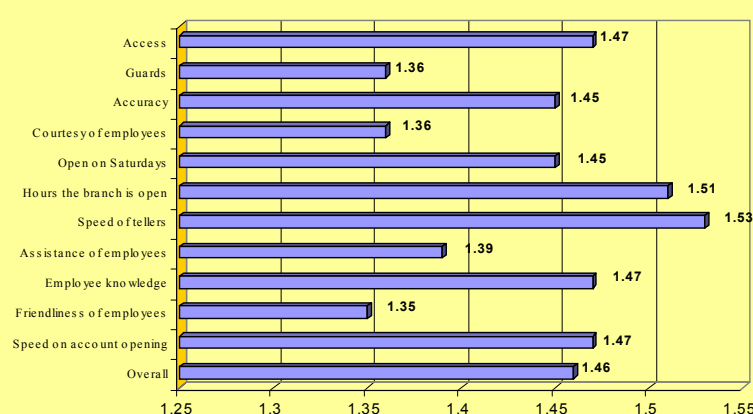
- In all measured aspects, respondents rated their assessment of ABK's services to be Highly Positive
- Overwhelming proportion of respondents consider ABK to be their Main Banking Institution
- Most often used banking services at present are declared to be Current Account and Payroll Services
- Majority of surveyed ABK's customers are working, whereby with regard to their occupational status more than half are either Owners of Businesses, or Civil Servants of White Collar Employees
- Close to half of surveyed customers are persons who have achieved Higher than Secondary education

3

The table below shows the ratings given by ABK customers for several of the factors included on the assessment survey. These results suggest a high level of customer satisfaction in all ABK services provided.

### Assessment of Bank Services

(average score, from 1 superior - 5 unacceptable)



5

Included on the following pages is the customer service survey that was administered at all of the branches. The management team expects to use this and modifications of this tool to continually assess the level of customer satisfaction at ABK, as new products and services are introduced.



## Customer Survey Questionnaire

Instructions: Please circle the appropriate number or write your answer in the space provided. All information will remain anonymous and completely confidential.

Thank you for responding to our survey. Your answers will help us improve our services and products. After you complete this survey please drop it into the Customer Survey Box.

1. Which branch/ sub branch of American Bank of Kosovo (ABK) do you use most often?

1\_\_\_ Pristina; 2\_\_\_ Gjakova; 3\_\_\_ Gjilan; 4\_\_\_ Peja; 5\_\_\_ Prizren; 6\_\_\_ Mitrovica;

7\_\_\_ Ferizaj; 8\_\_\_ Vushtrri; 9\_\_\_ Kamenica; 10\_\_\_ Dragash; 11\_\_\_ Malisheve;

12\_\_\_ Kaqanik; 13\_\_\_ Zvecan; 14\_\_\_ Strpce; 15\_\_\_ Gracanica; 16\_\_\_ N. Mitrovica

2. How many times do you visit the particular branch during an average month?  
(If “none”, please write in “0”) \_\_\_\_\_ times. Reason of visit \_\_\_\_\_

3. Please indicate how satisfied you are with each of the following items:

1. Superior    2. Good;    3. Average;    4. Poor;    5. Unacceptable;

A. Overall speed of services you receive at the branch.....	1	2	3	4	5
B. Speed of service on opening un account.....	1	2	3	4	5
C. Friendliness of employees.....	1	2	3	4	5
D. Employee knowledge of banking products and services..	1	2	3	4	5
E. Willingness of employees to assist you with problems...	1	2	3	4	5
F. Speed of service you receive from tellers.....	1	2	3	4	5
G. Hours the branch is open.....	1	2	3	4	5
H. Saturdays the branch is open.....	1	2	3	4	5
I. Courtesy of employees.....	1	2	3	4	5



- J. Accuracy with which your requests for service (such as account transfers, paperwork preparation) are handled..... 1 2 3 4 5
- K. Professionalism of guards..... 1 2 3 4 5
- L. Easy access ..... 1 2 3 4 5

4. Where have you heard/ read/ seen about the American Bank of Kosovo?

1. TV
2. Radio
3. Newspapers
4. Internet
5. Friend/Relative
6. At Work
7. Other

5. How long have you been customer of this bank? \_\_\_\_\_ months.

6. Do you consider American Bank of Kosovo to be your main banking institution?

1 \_\_\_ **Yes** 2 \_\_\_ **No**

7. Please indicate which banking services you are currently using with ABK or with other banking institutions. Circle the number in the appropriate column for each service you have (you can circle both responses if you have an account with both, ABK and other bank).

	<b>ABK</b>	<b>Other Bank</b>
1. Current Account	1	2
2. Savings Account	1	2
3. Time Deposit	1	2
4. Domestic Transfers	1	2
5. International Transfers	1	2
6. Foreign Exchange	1	2
7. Services in Other Major Currencies	1	2
8. Payroll Services	1	2
9. Social Payments	1	2
10. Pension Payments	1	2
11. Cheques	1	2
12. Letter of Credit	1	2
13. Guarantee	1	2
14. ATM's	1	2
15. Manufacturing and Production Loan	1	2
16. Trade Loan	1	2
17. Services Loan	1	2
18. Home Improvement Loan	1	2
19. Commercial Vehicle loan	1	2
20. Personal Vehicle Loan	1	2
21. Mortgage Loan	1	2

8. What is your occupation? Please circle the appropriate answer.

1. Owner of own business
2. Manager of enterprise
3. Manager of division or department
4. Professional
5. White collar worker/officer employee
6. Clerical-level office worker
7. Foreman, technician
8. Skilled worker
9. Semi-skilled worker
10. Unskilled worker
11. Military (officer)
12. Military (non-officer)
13. Civil servants (police, teachers, etc.)
14. Farmer, fisherman
15. Landless agricultural laborer
  
16. Housewife
17. Student or apprentice
18. Retired/disabled
19. Unemployed and looking for work
20. Unemployed, but not looking for work

9. What is your age? \_\_\_\_

10. Gender: female \_\_\_\_ male \_\_\_\_

11. What is the highest level of formal education you've completed?

1 \_\_\_\_ Elementary School      2 \_\_\_\_ High School      3 \_\_\_\_ College Degree or Higher

12. What would you add so we could improve our services and products? \_\_\_\_\_

Thank you for your time and answers.

## **Appendix D - Supplemental Information on Risk Management at ABK**

The Management team of the American Bank of Kosovo (“the Bank” or “the ABK”) is committed to establishing a strong control environment throughout the organization. This strong environment is to be achieved through:

- Clear definition of management and staff responsibilities and reporting lines;
- Extensive training programs for all staff and management; and
- An active internal audit department.

The Management of the Bank is responsible for:

- The identification of control objectives relating to the protection of the Bank’s and customer assets and to ensure that all transactions are properly recorded;
- The design, implementation and maintenance of control procedures to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved.

In carrying out these responsibilities the management team has regard not only to the interest of customers but also those of the owners of the business and the general effectiveness and efficiency of the relevant operations. An internal review of the internal policies and procedures in operations was conducted and presented for further review by an external organization. PricewaterhouseCoopers (PwC) was engaged to perform this operational and financial review. Below are the relevant excerpts from the Engagement Letter for the review that was conducted in September, with a more in-depth look in October.

### **Extract from the “Engagement Letter for the audit of 2002 Financial Statements of the American Bank of Kosovo”**

#### **Scope of work**

In accordance with the Terms of Reference and the request for internal review of the American Bank of Kosovo (“the Bank”), PricewaterhouseCoopers will perform the following work:

The agreed-upon procedures in respect of the Bank’s operations to determine whether they are conducted in accordance with internal manuals covering policies, procedures and best practices in the following areas:

- Lending
- Deposit Accounts
- Money Transfers
- Cash Management and Control
- Human Resource Policies
- Financial Accounting Procedures
- Information Systems
- Overall Risk Management Procedures

The audit and agreed-upon procedures will be carried out in accordance with International Standards on Auditing and will include such audit procedures as we consider necessary under the circumstances.

## **Agreed-upon procedures in respect of the Bank's operations**

Agreed-upon procedures will be conducted in accordance with International Standards on Auditing Applicable for Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.

The results of the agreed-upon procedures will be a written report detailing our factual findings. Users of the report assess for themselves the procedures and findings reported by auditors and draw their own conclusions from the report.

The management of the Bank is responsible for the design, implementation and maintenance of control procedures that provide adequate levels of protection of customers' assets and records to ensure that all transactions are properly recorded. The management is also responsible for the definition of adequate levels of protection in terms of control objectives and for ensuring that these objectives are achieved by the control procedures in place. The Bank's management will describe the control objectives and the related control procedures in a report.

Our responsibility is to test the control procedures described by the Bank's management and whether the specific control procedures, which we tested, operated as described and to report to the Bank. We shall not report on any opinions or assertion by management of the Bank on the effectiveness of objectives, policies and procedures.

We will perform the following procedures in respect of the Bank's operations and report to the Bank the factual findings resulting from the work performed:

- (i) Analyze lending operations;
- (ii) Analyze deposit operations;
- (iii) Analyze money transfers;
- (iv) Analyze cash management and control;
- (v) Analyze human resource policies;
- (vi) Analyze financial accounting procedures;
- (vii) Analyze information systems;
- (viii) Analyze risk management procedures.

The report will describe the procedures performed and any material exceptions identified as a result of these procedures or contain the statement that none exist.

The agreed-upon procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing and, consequently, no assurance will be expressed.

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore our report will be based on historical information and the projection of any information or conclusions, contained in the report, to any future periods is subject to the risk that changes in procedures or circumstances

may alter their validity. We shall not assess whether the control procedures achieve the control objectives that were set.

The PwC report will be addressed to the management of the Bank, although we understand that the Bank may wish to make the report available to other parties, and we consent to the report being provided to them on request for their information but without liability to them on the part of ourselves. The Bank shall agree not to use the report, or references to it, in material disseminated to the general public without our written permission.

### **Procedures performed during the review**

Our procedures were conducted in accordance with the International Standards on Auditing, which require us to obtain an understanding of the procedures in operation by enquiry of management and analysis of documents supplied to us. Our work included tests of certain specific procedures to determine whether they operated as described. We have not performed an assessment of the adequacy or completeness of the control objectives in relation to the risks they are designed to address nor have we assessed whether the control procedures achieve the control objectives that were set.

Our tests did not include tests of transactions in respect of any particular party. They were restricted to the Bank's operations during the period and their relevance to any individual party is dependent on their interaction with the particular procedures and other circumstances. Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, this report is based on historical information and the projection of any information or conclusions in the Report to any future periods would be inappropriate.

As a result of the review conducted by PwC, it was determined that there were no significant risks in the operations of the ABK.

*The full PwC report will be made available to USAID as requested.*